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DEVELOPMENT OF THE SHEEP INDUSTRY IN KOSOVO

KOSOVO CLUSTER AND BUSINESS SUPPORT PROJECT



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DEVELOPMENT OF THE SHEEP INDUSTRY IN KOSOVO

AN ASSESSMENT OF THE KOSOVO SHEEP INDUSTRY AND
RECOMMENDATIONS FOR A PROPOSED STRATEGY AND
TACTICS FOR THE INDUSTRY TO ENTER THE EXPORT MARKET

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PURPOSE OF ASSIGNMENT

The purpose of this assignment is to conduct an economic analysis of the sheep and lamb sector with emphasis on the potential for export markets for lamb. Data will be collected on all aspects of the sheep and lamb markets, which will support a comprehensive set of activities to be implemented by the KCBS agribusiness activities.

BACKGROUND

The sheep and lamb sector has gone through a massive restructuring since the inception of the war. The sheep inventory has declined from an estimated 600,000 head to below 100,000 head at present. The reduction was because of the lack of export markets caused by the disruption from the war. Kosovo had had a robust trade to neighboring countries in lambs with a reputation for a quality product.

The production of sheep is concentrated on a large number of very small farms (average size of 2.43 ha) and the number of sheep per flock is small. Sheep are used for family consumption with a small surplus being sold in the local market. Farmers will bring sheep to the market once a week to sell sheep. The young generation of Kosovars is not choosing to carry on the tradition of sheep raising resulting in an aging population to carry on the tradition.

Sheep and lamb normally graze on pastureland during the summer. Sheep are trekked to the mountains where they graze communal pastures. During this period cheese is made and sold in the nearby towns. In the fall sheep will graze crop stubble before moving into barns for lambing during the winter months. During the winter, sheep are fed hay and feed grains.

Crop surpluses are not readily available for sheep production. There is a limited amount of feed, and it is restricted by the farmers' access to land for grain and hay production. Supplies of feed grains are limited and large quantities are imported. Kosovo is a small, landlocked territory, which necessitates the importation of most goods, usually by road and over long distances. For example, 100 percent of the soybean meal is imported, as well as 30 percent of the maize. All imports must pay a customs duty of 10 percent (except those from Serbia) and a VAT of 15%, which when taken together compound each other to a 26.5% duty on imports, including feed ingredients. In animal production throughout the world, feed is a large percentage of operating cost for livestock producers. This is certainly the case in Kosovo.

There is presently a large amount of unused slaughter capacity in the country. Some plants only slaughter one or two days in a week to meet local demand. A former state owned enterprise (SOE) is capable of slaughtering 80 head of cattle but presently slaughters eight head per week. Almost all of Kosovo's slaughter facilities are not up to the necessary standards as licensed export abattoirs. Small butcher shops are the main outlet for meat products, though an emerging number of larger supermarkets are appearing in the larger towns and Pristina. Lamb is not a common product in the supermarket stores but can be found in butcher shops. Sheep are commonly slaughtered off-site in uninspected slaughter facilities. There are presently no licensed sheep and lamb slaughtering facilities.

Even with these obvious limitations, there is interest by individuals to renew an export trade in lambs. Though many producers have exited the industry and SOEs have

disbanded and flocks reduced, producers still remember the demand for Sharri lambs from Kosovo. Market conditions have certainly changed since Kosovo exported lamb. Current conditions will need to be assessed as to the viability of the market. This background history is a good base from which to explore the potential of an export lamb industry.

EXECUTIVE SUMMARY

The sheep industry in Kosovo has experienced enormous contraction in the past ten years. A series of events have resulted in the industry declining from over 500,000 sheep to its estimated present size of around 90,000 head. Put simply, this is an industry that has lost its markets for lamb and wool. Sheep cheese is as important as lamb to producers, but it has been left to its traditional niche in the domestic market.

Kosovo can be described as an industry that has moved into equilibrium with the domestic demand. Kosovo consumers prefer beef and chicken over sheepmeats. Mutton is an inferior product to consumers in the economic sense. Sheepmeat consumption is low in Kosovo and estimated at approximately 0.80 kg per capita per year. Lamb meat is in a different product category. In general, sheepmeat is viewed as containing more fat than either beef or chicken; and because of the taste, cooking time and smell, sheepmeat is not preferred by the wide population. The slaughter of sheep and lambs is heavy during the festivals of St. George and Bajram Kurban. Kosovo imports relatively little sheepmeat and lamb so the industry is relatively isolated from outside international market forces for sheep. The country does import significant amounts of cattle, beef (frozen blocks) and poultry meat, which are competitive products to sheepmeats.

The potential for export of Kosovo lamb is good. Two letters have been received (see annex) of companies interested in importing Kosovo lambs. Several roadblocks exist which prevent access to these markets. The status of Kosovo as a sovereign nation creates problems for member states of the OIE and other international bodies responsible for animal health. The capacity of the veterinary service itself lacks prerequisites to meet necessary monitoring, testing and reporting on animal diseases. A few years back, Macedonia lost access to export lamb to the EU because of an outbreak of foot and mouth disease (FMD). The market is now open, but Macedonia is going to be reluctant to allow imports of live animals from Kosovo for slaughter. It has been reported that the current policy is all livestock for slaughter in Macedonia must reside in the country for three months. This point can be negotiated between the Kosovo Veterinary Food Agency and the veterinary service of Macedonia. The industry will have to improve its ability to market in Kosovo and improve its product before being in a serious position to export a consistent quality product.

The demand in the export market will require adjustment in current flock management practices. Because of the lack of marketing integration, producers have carried meat lambs longer in the flock, and they are too heavy and fat for the export market. Changes in flock management will have to occur, and the report sets out various strategies using lead farmers in selected sheep producing areas as the catalyst for change.

The current costs of production with and without the proposed KCBS interventions are estimated. The purpose was to assess competitiveness with regard to market prices offered by importers. Without KCBS proposed interventions the producer has to receive €2.45/kg for market lambs to break-even. The price is much higher than the local market price which averages €1.80 throughout the year. With the KCBS proposed interventions for flocks in the lamb export program, the breakeven price is €1.58, significantly below the price being currently offered by Macedonia importers. The breakeven price is calculated on all costs, cash and non-cash costs. It will take a period of time to achieve productivity targets set forth in this report.

Household income for participating producers in the KCBS program versus not participating will increase by approximately €8,400 over the three years of the project. This amount could be reduced to a more conservative estimate of €5,000.

The KCBS program will result in export earnings in the amount of €1,746,00 during the first three years of the program for 50 targeted producers selling a total of 39,000 lambs. This is an upper end estimate assuming that all 50 producers sell all their lambs into the export program. A more conservative estimate of foreign exchange earnings would be €500,000 over the first three years of the program. The estimates can be refined after further field work by KCBS staff to sign-up of participating farmers and estimate their intentions for supply of lambs.

A critical component of the proposed program is the timely communication between the MOAFRD in Kosovo and its counterpart in Macedonia. At the earliest possible date, a meeting needs to take place between the respective representatives to undertake negotiations to establish an acceptable protocol for the export of live animals. A similar meeting can be held with respective representatives in Bosnia – Herzegovina (BiH).

The report sets out a plan of action. Three phases corresponding with three objectives and a number of activities are identified. Targeted outputs are established with key time frames. Also a set of tasks are identified by each stakeholder: KCBS, USAID-Kosovo, MOAFRD, MVFA, and slaughter plants in Macedonia and the BiH. It will take a full-pressure team effort to get the results estimated in the report.

The outcome will be that the sheep industry in Kosovo can contribute to the general economy and to the generation of foreign exchange. The industry can also increase household rural incomes.

FIELD ACTIVITIES TO ACHIEVE PURPOSES

To address the issues of export potential for the sheep industry, a systems approach was taken to address critical constraints preventing the exportation of sheep and sheepmeats. A bibliography of reference documents is provided in Annex 1; a detailed list of the interviews conducted is provided in Annex II.

1. Assess Production

A survey of sheep producers was funded by KCBS and conducted in June, 2005 (Arifi). Results of this survey were further analyzed to allow more details on flock structure and productivity. The data was later formatted into an Excel spreadsheet and statistical analysis performed. The data were supplemented with the EAR report on livestock holdings for registration (Halili).

Individual livestock producers were interviewed at length in various locations. The purpose of the interviews was to clarify assumptions made in the June field survey. Interviews lasted almost two hours and in most cases the interviews took place in the field with the flocks present. Most producer interviews were conducted in Dragash, Ferizaj, Gjakova, Prizen and near Pristina.

2. Assess Slaughter and Processing

Site visits were made to slaughter plants and butcher shops in Kosovo and Macedonia. Interviews were conducted with key personnel in each establishment and a series of questions were asked concerning procurement, operations and marketing. The purpose of the interviews was to determine the capability to slaughter lambs that would be targeted to the export market. It was also important to learn what was the managerial potential to undertake export market efforts. A recent KCBS report on slaughter plants (Nyce) plus this consultant's prior work in Kosovo helped to complete a rapid assessment of slaughter facilities for export.

3. Assess Marketing Channels

Interviews with key stakeholders were to ascertain the best approaches to market sheepmeats. This required examining linkages to downstream users in the marketing channels. Pricing information was collected to determine relative prices and margins for key sheep products. Visits were made to live animal markets to determine the flow of sheep. Problems in marketing lambs were documented from interviews.

Secondary research was conducted on potential markets for Kosovo sheep. Websites were searched (FAO, EU, USDA, New Zealand and others), and recent statistics on the sheep industry were collected on countries in the Balkans, Greece and Italy.

4. Assess Support Institutions

4.1 Extension Service and Other Sources of Technical Assistance

Visits were made to municipalities with the potential for increased sheep production. Animal husbandry extension agents were interviewed as to problems encountered in transfer of technology to farmers. In one case, an extension agent joined the team during a series of farm visits in Dragash municipality.

4.2 Farmer Associations

Interviews were conducted with sheep producers regarding their willingness to participate with other farmers in a sheep association. Farmers were asked whether they would serve as a lead farmer to organize others in their village. A KCBS staff member involved in association management provided information on development strategies.

4.3 Veterinary Services

Several meetings were held with the veterinary services to determine what was the status of veterinary monitoring inspection, and reporting to be in compliance with international organizations (e.g. EU and OIE). Meetings were held with the external funded projects by the EAR to strengthen the veterinary services and bring Kosovo into compliance with international regulations. The activities of these programs were assessed as to how they might benefit the development of a lamb export program.

4.4 Financial Institutions

Time permitted only a briefing by KCBS staff on banks and non-banking financial institutions (NBFI) making loans to the agricultural sector.

4.5 Feed Suppliers

A meeting was conducted with a large feed importing company that purchases feed for its poultry operation outside Pristina. The task was to determine what constraints in feed supply cause increases in the cost of production of lamb. Current feed prices were collected in farm supply stores.

4.6 Donor Agencies

Meetings were conducted with donor agencies, e.g. European Agency for Reconstruction (EAR), to determine extent of their activities to avoid redundancy. Email correspondence was established with LOL in Skopje about collaboration on lamb marketing.

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TASK FINDINGS

1. Physical

Sheep production has contracted to a level in line with demand in the domestic market. Prices are reasonable for the volume produced and the industry has some inherent protection in that few, if any, live sheep, lambs or sheepmeats are imported into the country. The size of the flock is estimated at around 90,000 head. The majority of these animals are ewes but the number in each age category are not known. The age range of ewes in a flock is likely from one to five years, and the replacement rate is estimated at 20 percent (based on field interviews).

1.1 Size of Operations

Sheep producers in the survey are grouped having small (A), medium (B) and large (C) flocks according to Arifi's survey. Data was analyzed according to these three sub-sets of sizes of operations in Kosovo.

Group A. Flocks have 40 to 150 head of sheep (70% of sample). The average amount of land available is 14 ha with a standard deviation of 28 ha. Only 2 out of 19 producers reported renting land for grazing and producing hay. This group has two laborers per flock.

Group B. Flocks have 150 to 500 head of sheep (23% of sample). The average amount of land available is 20 ha with a standard deviation of 23 ha. Only 2 out of 9 producers reported renting land for grazing and producing hay. This group has three laborers per flock.

Group C. Flocks with over 500 head of sheep (7% of sample). The average amount of land available is 49 ha with a standard deviation of 41 ha. Only 1 out of the 2 producers reported renting land for grazing and producing hay. This group has five laborers per flock.

1.2 Buildings

The buildings for winter confinement are old, and facilities for the proper care of lambs are limited. Producers have let buildings deteriorate because of the lack of funds to improve facilities. The two producers in Group C each reported having two buildings.

1.3 Feed

Most sheep have different sources of feed at various times of the year. Crop stubble is available in the fall after sheep return from the mountain pastures. There is also access to grazing of communal lands owned by the municipalities. Winter feedstuffs are grains and hay (mainly from own production). Most producers make hay and store it on the farm. Early spring grasses are available until sheep are moved to mountain pastures in mid-May.

1.4 Dual Purpose Sheep

Interviews with producers indicate that farmers may be reluctant to sell lightweight lambs because of their tradition of selling heavier weight lambs if milk for cheese is not an activity. It will be needed to show that producers can benefit from a high price for

lightweight lambs and also the increased amount of milk production which can go to cheese production.

2. Technical Analysis

Interviews with producers indicate that lambing rates are low compared to the potential, partially due to available nutrition but also animal husbandry practices. In interviews, the lambing rate is estimated around one lamb per exposed ewe per year for the flock; however, producers estimated a portion of the ewes regularly produced twins and a few triplets. Other management issues are important such as the presence of foot rot when grazing in the valleys. It is felt that there is a large potential to improve all technical aspects affecting productivity of the flock.

Producers have limited access to channels of improved technical information, whether it is production or marketing. The average age of sheep producers is high reflecting that the industry lacks appeal for young people. The level of formal education level of most producers is low which presents a challenge to introduce new technologies and management practices. The current extension service lacks the capacity to deliver improved technologies. Extension agents in municipalities lack the necessary training and tools (software) to help analyze and assist producer operations.

We assessed producers' interest in new technology and methods for its diffusion. Producers are interested in participating in organizations that can overcome their marketing problem. (Marketing was mentioned by far as producers' greatest problem.) Some producers said they would contact other sheep producers in their area about joining in an export marketing venture for lambs. These farmers had larger flocks, and they seemed comfortable with assuming a lead role. The lead farmer and the small group of participating farmers could focus on a specific marketing activity that will yield tangible results, such as increased household income.

3. Economic Analysis

Building on the work by Arifi, further analysis was conducted on the cost of production. A spreadsheet was used to compile cost information from interviews and estimate net returns on a per ewe unit cost basis. Cost projections were estimated for two scenarios of with and without a KCBS project – see Annex 3. Key variables were lambing and mortality rates and the price received for lambs.

3.1 Without KCBS Project Interventions

Gross revenue on a per ewe basis is €81.87/ewe based on a set of mortality, fertility and market price for lambs. Variable cost per ewe is estimated at €93.68. Gross margin per ewe is (€11.81). Fixed cost per ewe is €4.59. Profit per head is (€16.40). Other financial performance indicators are given in. The breakeven price to cover all costs of production (cash and non-cash) is €2.45/kg for market lambs.

3.2 With KCBS Project Interventions

Gross revenues from the sale of lambs and other projects was €130.62/ewe because of the higher lambing rate of 1.5 in the third year of the project. Variable cost is €91.52 per ewe. Gross margin per ewe is €39.10. Fixed cost per ewe is €4.59. Profit per ewe is €34.51. The breakeven price to cover all costs of production (cash and non-cash) is €1.58/kg for meat lambs. The lower breakeven price with the project is because of lower mortality and higher lambing rates.

4. Value Chain Analysis

Interviews were conducted with participants in the value-chain for input supply, production, processing and retailing of lamb. The objective was to determine the level of the commercial orientation, and if possible, the respective margins in the value chain.

4.1 Input Suppliers

Input suppliers of grain seemed to be available in even small towns. Bags of feed was seen in the shops though it was expensive. Maize was €6.00 per 40 kg bag, and wheat rejects was €6.00 per 50 kg bag. No minerals or vitamins for livestock were available in local feed stores. Producers were not familiar with purchasing grain in bulk or with purchases by a group of other producers directly from a feed mill.

Animal vaccines and medicines for sheep were said to be available. The KVFA does free vaccinations on brucellosis and for intestinal parasites. Producers in the valley stated that foot rot is a problem, and they treat their animals themselves. Producer mentioned low mortality rates in their sheep, but record keeping is poor to know exactly.

Information was collected on financial institutions lending to agricultural producers. There are seven banks, but they make limited number of loans to agriculture. Raiffeisen Bank Kosovo has more linkage to the sector, and they could be approached about lending to producers signed up for the export lamb program. There are about 15 micro-finance institutions, but the amount of available credit to an individual producer is small, less than €10,000 and likely only after several smaller loans have been successfully completed with a firm.

4.2 Traders

Producers mentioned that livestock traders visit their farms to purchase sheep. Some livestock are sold this way, but producers preferred to attend the weekly local market. This is their way of gathering price information and also staying connected with social relationships. Traders were active previously in the marketing of export lambs. One company, ExIm Kos, bought lambs for export to Italy.

4.3 Slaughter and Processing

Three slaughterhouses were visited, Lybenta, Meka and Appetite. Ron Nyce's report was referred to on other slaughterhouses in Kosovo. The general consensus among people in the industry and government is that existing slaughterhouses have an interest in handling sheep products. One slaughterhouse operator said he might try to purchase lambs for a program, but he would be unwilling to pay for lambs until several weeks or months after slaughter. This is hardly a sound commercial venture to pursue. Unlike a few progressive dairy processors that are delivering technical assistance to producers, slaughter plant operators are reluctant and unable to engage services to improve the supply and quality of sheep.

Lybenta Slaughter Plant, Ferizai. Lybenta plant is a new plant that is properly designed for implementing good slaughter practices. The structure is designed so that dirty products (offal, hides and skins) drop through chutes to the floor below reducing meat product contamination. Walls and floors are in compliance with EU standards. Animal holding facilities are covered and closed and separate from the kill floor. The plant does lack the ability to do on site processing and this will require expansion or an off-site processing unit.

Meka Slaughter Plant, Dragash. Meka Slaughter plant is in Dragash municipality. This plant is unlikely to ever receive an export certificate from the EU because of its design and layout, building materials used and the state of the kill floor. Animal holding is too near to the processing areas and the environment is contaminated by the presence of animals near the processing area allowing for cross-contaminations to other areas of the plant.

The manager said he might consider investigating lamb slaughter, but he would have to likely hire seasonal labor which may be difficult. He is reluctant to pay for animals in a timely manner because he is unsure about the export market for lamb.

Appetite Slaughterhouse, Vushtri. This plant is owned presently by the municipality. The manager has an interest to purchase and to renovate the plant. The plant would supply meat to his restaurant. This plant would not be able to meet EU standards. The manager stated a company in Bosnia Hercegovina (BiH) contacted him to supply lambs from Kosovo. We are following up with the company in BiH. See letter in Annex 4.

Gornji Polck, Macedonia. A trip was made to Macedonia to meet with one of the owners of this plant see letter announcing his requirements in Annex 4. The owner is very serious about importing lambs for slaughter for the export market in Greece and Italy. This year the plant exported 13,000 carcasses to Italy and 8,000 to Greece. The manager mentioned his buyers are requesting upwards of 20,000 lambs at the Christmas period but can only supply around 2,000 carcasses. One buyer alone needs 4,000 carcasses per week, and during the Easter period for 10 days the buyers need 80,000 carcasses. Romania is a competitor in the Italian market, but the taste of the meat is not as preferred to Sharri lambs.

The plant only exports chilled carcasses to the EU. There are three weight classes for lambs, 1st Class (6-9 kg) (mainly for Northern Italy); 2nd Class (9-11 kg) (mainly to Southern Italy) and 3rd Class (11-14 kg) (mainly to Southern Italy). The head and liver may or may not be attached. Buyers prefer a compact carcass rather than a long slick carcass. The price for 1st Class lamb is €5.00 to €5.50/kg FOB the plant in Macedonia.

This plant has a license from the EU to export lamb carcasses to the EU and has a quality rating of six (6) which is the highest. The plant is undergoing improvements to keep its rating and also to receive a license for the export of beef.

4.4 Butchers

Butchers shops were visited in Pristina and in several smaller towns. The purpose was to determine the market for lamb and mutton. Data on cost of operation and prices of meat were collected. Butcher shops are important in the meat value chain. An estimate is provided of the revenues and costs of operating a butcher shop that sell both beef and lamb in Pristina – see Annex 5. The gross returns per month are estimated to average €67,000, and the products include mainly beef, lamb and some sausages. The monthly operating costs is estimated at €41,570 per month. The net return to ownership and capital invested is €26,150 or the butcher margin of €1.51/kg, approximately a mark-up of 46 percent. The margin for butchers is better than sheep producers who are currently estimated to have a negative margin.

5. Marketing and Trade

5.1 Demand for sheepmeat in Kosovo

The domestic market for sheepmeat is almost completely reliant on domestic production. Based on a flock size of approximately 90,000 sheep, the estimated consumption of retail weight sheepmeat (without bones) is estimated to be 1,725 mt. The current population of Kosovo is around 2.2 million so that the consumption per capita is estimated at .78 kg/capita. This is below the estimated consumption of 2.6 kg/capita in Macedonia (LOL) where recent estimates put sheep meat production at 5,000 to 5,200 mt per year in 2001 and 2002 (LOL). The EU's annual per capita consumption of sheep meat is roughly 5.6 kg, compared to U.S. per capita consumption of 0.6 kg per year (FAS).

The market factors impacting on domestic demand for sheepmeat would indicate that consumer demand is unlikely to increase significantly. The local market receives supplies of dairy beef from the domestic dairy herd. In addition there are supplies of live animals from Serbia and some other European countries. Kosovo also receives large supplies of frozen beef and chicken meat which is primarily for processed meats. The source of this meat is from Brazil, USA and the EU. Several countries in the region export processed meat to Kosovo, e.g. BiH and Slovenia. One estimate is that Kosovo imports 1,600 mt of processed meat per year. Furthermore, per capita disposable income has been stagnant the past few years as reported by a large meat supplier in Pristina, and imports of processed meats has declined. As of October 13th, Kosovo has banned the importation of beef from Brazil because of an outbreak of FMD. This may add pressure for an increase in the price of sheepmeat.

Kosovars have a preference for beef, veal and poultry. As reported by butchers, consumers do not like the smell of sheepmeat when cooking in their houses, and they prefer their meat with less fat.

The Bajram Kurban is a Muslim feast day after Ramadan. A large number of ewes and rams are purchased and slaughtered at a high price. Meat is distributed to lower income families as a gift.

5.2 World Market Situation

The world production of meat is estimated to be 266.6 mmt in 2005 up slightly from 2004. Meat exports will rise slightly to 20 mmt and per capita consumption is estimated to be 41.9kg/cap. (FAO). Trade in sheepmeat products is expected to reach 788,500 mt in 2005, up 7 percent from the previous year, as tight lamb supplies in key importing markets and falling Australian dollar prices in early 2005 promoted strong levels of shipments. Australia and New Zealand will supply 86 percent of global exports. Sheepmeat exports are increasing from Argentina, Uruguay, Chile and Pakistan (FAO).

5.3 Regional Trade Statistics

Data from FAO indicate that Kosovo has the smallest inventory of sheep in the Balkans. Macedonia, Albania and Serbia-Montenegro have each approximately 1.5 million sheep compared to Kosovo with an estimated 90,000 head – see Annex 6. Even though the inventory has declined significantly in Kosovo, sheep and sheepmeat are not imported into the country to fill the previous amount of sheepmeat produced.

The key markets mentioned for exports of Kosovo sheepmeat are Greece and Italy. FAO data indicate that both countries import sheep and lambs for slaughter and some for breeding. In 2003 Italy imported 1.8 million head of sheep compared to 811,000

head to Greece. The price per head was higher in Italy in 2003 (\$56.42) compared to Greece (\$47.20).

Italy is a more attractive import market. The quantities and prices are higher than in Greece. In 2003 Italy imported 23,377 mt of meat at a value of \$ 4,792/mt compared to Greece which imported 16,085 mt at a value of \$ 3,250/mt. Between the period of 2000 to 2003, imports fell in Greece while remaining fairly constant in Italy.

5.4 Domestic Market Prices

Sheepmeat. The domestic market sets the price for sheepmeat. The price fluctuates for lamb and ewes during the year. The period around May before sheep move to the mountains is when market prices are at their lowest, around €1.80/kg. The price continues to remain low through September. Prices for lambs begin to increase in the fall and reach a high around the New Year of €3.00 to 3.50/kg before declining again to the lowest price period in May. In the survey by Arifi, the average market price for 17 kg lambs was €2.19/kg; 20 kg lambs was €2.13/g; 25 kg lambs was €1.87; and 30 kg lambs was €1.80/kg.

Cheese. Sharri cheese is a popular item in Kosovo. It sells for €3.50 to €8.00/kg depending on the location. Producers may view lambs as a by-product of the cheese activity, and KCBS will need to factor into an export lamb program. Producers can have problems transporting cheese from the mountains to urban areas during the summer months. Also the quality and shelf-life can be variable. Cheese is normally sold in 10 kg loaves and wrapped in plastic.

Wool. The market for wool for producers is problematic. The wool processing plant has been closed in Dragash municipality and there is no market for wool. Producers reported large quantities of wool in their households. Price of wool is €20/kg if it can be sold.

Imported Meat. Imported boneless beef from Brazil arrives CIF at €2.60/kg, and manufactured beef price is €1.60/kg mainly for processing. Imported poultry meat is €0.80/kg CIF and used for processing. Imported frozen whole chickens for retail consumption is selling for about €1.65/kg, frozen quarters for around €1.50 to €2.20/kg, and frozen breast meat €3.00/kg. Whole dressed chicken from Kosovo sell for €2.20/kg. Poultry is more price competitive than lamb meat in the consumer's budget.

5.5 International market prices

Price information was collected from an interview with the manager of a slaughter plant in Macedonia which is supplying Italy carcass lambs. The plant has a contract to supply lamb carcasses in the weight range of 9 – 11 kg at a FOB price of € 5.00 to €5.50 per kg.

Lijanovici meat company near Mostar in Bosnia – Hercegovina has an interest to purchase lamb and lamb carcasses from a slaughter plant in Kosovo. The stated price was € 5.00 to €5.50 per kg FOB Kosovo. The carcasses would be sent to Lijanovici's on their trucks returning to BiH.

U.S. prices for lambs in the weight class of 44 lb (20kg) (medium 1 – 2) on September 19, 2005 was €2.43/kg (US\$1.38/lb lwt). (USDA) The producer price in the U.S. for lambs is higher than the current price in Kosovo of €1.80 to 2.00/kg. The New Zealand price for 20 kg lwt lambs on September 22, 2005 was reported at € 2.52/kg (\$1.43/lb) (USDA).

Cull ewes in the U.S can sell for \$.45/lb (€80/kg) while in Kosovo the price can average €60/hd (€1.33/kg) and during the Biyram Corban religious festival a ewe can sell for over €100/hd (€2.22/kg).

A butcher in Tetova, Macedonia purchases lambs at €1.50/kg from farmers. Lamb meat sells for approximately €5.00/kg. The live price is lower than the price butchers pay in Kosovo. The lamb price in another butcher shop in Tetova sells for €6.50/kg around the New Year, and after this period the price falls back to between €5.00 and €6.00 range. In October, 2005 the lamb price was €5.40.

6. Competitiveness

Kosovo is in a unique market position. The sheep inventory and offtake are sufficient to meet the local demand at present. The processing industry does not add-value through retail packaging. The industry is not threatened by imports of sheepmeats. Mutton is likely an inferior product in that an increase in consumer income will see even less mutton consumed. Lightweight lamb, however, could be an attractive product in the domestic market among high income consumers and certainly it is in Italy and Greece markets. The export price will have to be high enough to pull young lamb from the domestic market. Producers can consider a split production season to sell lambs for the two high priced market windows, New Years and Easter.

7. Supporting Institutions and Policies

7.1 Donor agencies

Several relevant projects are in progress or planned to that can support the development of a commercial lamb marketing program. The EU is funding an agricultural master plan which will advise the MOAFRD in setting priorities for policy and subsequent activities. It was made clear that Kosovo does not have to adopt all the EU regulations in the beginning as regards health measures. Kosovo could identify those areas that could directly enhance a commercial opportunity for lamb exports.

The TAIEX project funded by the EU is doing a veterinary evaluation of the present situation and will identify the prospects and potential obstacles of future EU alignment (Nyce).

The European Agency for Reconstruction (EAR) has two initiatives. The improvement of the veterinary services is being undertaken and is in its second phase. The focus will be on Inspection and Registration (I & R) of livestock to be in compliance with EU standards. The second funded project involves the drafting of food safety legislation. Experts report that Kosovo could be in full compliance with the EU by 2010. There is the need to get the KVFA to adopt the "Performance, Vision, and Strategy (PVS) for National Veterinary Service" tool kit published by the OIE and IICA. KVFA has both the willingness and the human resources to put in place the PVS plan.

A Swedish project (SIDA) is involved with food safety which will assist in bringing competence to the diagnostic facilities to achieve third party recognition. The project is entitled "Quality and Regulatory Infrastructure Development for Food Safety and Quality in Southeast Europe. This project will address the need for quality management of the diagnostic facility which will be important for export certification. FAO/WHO is also involved in an allied area of work on food safety in Southeast Europe Transition Countries project.

Other donor initiatives, either contemplated or completed are:

- USAID is planning a trade and development initiative which will support the development of export products. This initiative will benefit lamb exporters.
- FAO has been active in Peja to promote the production of wool and milk.
- GTZ has taken over the effort, and KCBS needs to collaborate in this effort. Members of a sheep association that was formed with German assistance in Zhurri was interviewed, and this group would be suitable for one of the five planned farmer groups.

7.2 Animal Health and Sanitary Standards

Because Kosovo is not a recognized independent nation by the world community, it makes it difficult to be recognized by the OIE regulations, and Kosovo is currently not a member. Specifically, in EC Directive April 29, 2004, Kosovo does not appear in 3rd Countries listing for approved products and in fact in the footnote Kosovo is specifically mentioned as not being included with Serbia and Montenegro for export to the EU (EC).

Kosovo will need to show control over animal health, prove that its control is effective, and demonstrate how diseases are being managed. It will be important that the KVFA focus on diseases that can have immediate impact on opening the lamb export market and postpone more difficult animal health tasks to a later time. For this reason, the KVFA needs to establish a relationship with the OIE by providing monthly reports to begin to build credibility with the world community. For example, KVFA could begin surveillance in the Dragash municipality and make regular reports on what it finds in this area.

The KVFA with help from the EAR and others is improving inspection, reporting, and delivery of veterinary services. EAR is undertaking an Identification and Registration (I & R) project which will improve Kosovo's standing in the world animal health society (Halili).

What is lacking is a clear road map on what are the essential steps needed to export lamb from Kosovo, both live animal and fresh and frozen carcasses. Brucellosis is a problem, and it will be important for a pilot project to begin with surveillance in limited areas for specific diseases required to export lambs.

7.3 Trade Agreements

Customs and trade regimes with Kosovo can be researched on the UNMIK web site (www.unmikcustoms.org).

Serbia-Montenegro and Kosovo. There is no free trade agreement between Serbia-Montenegro and Kosovo. Serbia does not charge custom duties on the concentrated (mixed) feed, but individual feed ingredients have a custom duty.

Macedonia and Kosovo. There is a free trade agreement between the two countries. However at the present time, Macedonia is requiring that lambs going for slaughter have to be resident in the country for three months before slaughter (KVFA personal interview). Any change in this policy will have to be made at the ministerial levels of both governments to clarify the residency issue. The diagnostic lab in Pristina is not recognized by an international certification agency. The lab is able to undertake tests on brucellosis, blue tongue and Foot and mouth Disease (FMD). Kosovo at present is free of FMD.

CONCLUSIONS AND RECOMMENDATIONS

A. CONCLUSIONS

The Kosovo sheep industry will remain a small within the livestock-meat cluster until such time that the country-status is resolved, and the veterinary service is recognized by the EU and the OIE. At present the veterinary service is being assisted by EAR to improve internal operations of the KVFA. It is expected to take until 2009 before the veterinary service reaches the level of other countries in the region, and Kosovo can export meat products.

Producers and Production

The sheep industry offers great opportunities to the agricultural sector of Kosovo, but at the same time faces challenges which have to be overcome. Producers' flocks are small, but there are a number of flocks of large enough size to lead a modernization effort. Sheep numbers can expand rapidly because of the level of fertility and short gestation periods compared to cattle production. At the same time productivity is low because of poor management which offers the opportunity for significant improvements in production.

Processing Industry

The processing sector for meat is weak, and there are few recognized slaughterhouses that slaughter and inspect sheep. Most slaughterhouses would not be able to receive licenses for export. As mentioned in Ron Nyce's report, the Lybenta slaughterhouse is export ready, though the management of the plant would have to receive training on export marketing.

Meat processors are more focused on importing frozen beef and poultry for processing. Sheep are expensive in both purchase price and processing costs so slaughter plants are reluctant to establish more than seasonal slaughter when prices are in their favor. Margins are higher for processed meat even with the import duties. This probably indicates that valuation being stated by importers at the borders are not accurate.

Retail Market for Lamb

Sheepmeats are not a preferred meat product in the diet of Kosovars, but rather beef and chicken are primary meat products. Large amounts of beef are imported, primarily for processed meat products, e.g. sausages and smoked meats. The major supplier is Brazil for both poultry and frozen beef. This will change with the recent Kosovo decree to ban imports of beef from Brazil because of an outbreak of FMD.

Lamb is not available in the large supermarket chains. In fact, consumers prefer beef, veal, and poultry meat. Consumers do not like fat lamb and mutton, and they complain about the smell when cooking sheepmeat in the house. Per capita consumption of lamb and mutton is estimated at around .80kg/capita, and Arifi's estimate was even lower at .60 kg/capita/year.

Lamb is offered in butcher shops, and the quantity sold varies widely between shops. The procedure is for the butcher to call a farmer to bring a few head to the shop where they are slaughter off-site and the meat is unlikely to be inspected. Beef, veal and sausages are the important meat items offered in butcher shops. The butcher margin is

estimated at €1.51/kg of product sold. This is compared with a negative producer margin.

There is some opportunity for promoting light weight lambs (three months of age). This promotion of Sharri lamb can be for both the Kosovo and for the export market. This promotion can also benefit the marketing of Sharri milk and cheese. There is a high level of recognition of the Sharri name both in and outside Kosovo.

Market Opportunities

Market visits in Macedonia found that Greece and Italy have a significant demand for carcass lambs in the weight range of 6 – 9 kg. The demand exceeds the capacity of even Macedonian suppliers so there is no problem with competition for market share. The research also uncovered market opportunities in BiH. Lijanovici in BiH exports large amounts of processed meats to Kosovo, and their interest to purchase live lambs from Kosovo is attractive for trade between the two countries.

Institutional Support

The institutional support for the export of lambs will have to be strengthened among key stakeholders. The research found weaknesses at all levels that will have to be addressed.

KVFA. The major stakeholder in support of an lamb export program is the KVFA. Their involvement from the beginning needs to be as an integral partner. KVFA is ramping up its capacity with EAR assistance. Representatives indicated there are no major barrier to the export of live lambs. KVFA does see serious systemic problems in the inspection system which will take time before meat from approved slaughterhouses could be exported to the EU. An estimate by Ian Goulding in a roundtable discussion was that Kosovo could not export meat until 2009.

Financing. Financial lending to the sheep industry is very low. Financial institutions (banks and non-bank financial institutions) will have to be introduced to the lamb export marketing program.

Extension. The extension service is weak and lack the resources to promote the program. Producers will have to be introduced again to the export program. Diffusion of new technologies and management for an export lamb program are not in place. Many producers from the time when Kosovo exported lambs have exited the industry. There are producers who know about the market channel. Producers will have to be educated with a market driven program, and they will have to meet certain weight ranges and quality levels to export lambs. Timing in the marketing of lambs will be important because producers will be encouraged to produce lambs for the high price periods of Easter and New Year.

B. RECOMMENDATIONS

A set of strategies is presented for consideration. It is necessary to realize that the sheep industry is not a vibrant industry. Inventory has contracted severely leaving producers without markets. Producers lack the skills to sort their way through a transition period. In addition, entrepreneurs have not identified this as a growth industry. The slaughter plants are not in a position to help lift up sheep producers, even the owners of larger flocks.

Strategic Business Plan

The first requirement is a strategic plan on how to achieve success in Kosovo to export lambs. This document initiates this plan. It will be important for stakeholders to come together to refine and implement this proposed plan. The business plan will have to work out the details necessary once the KVFA and the Veterinary Service in Macedonia decide on the needed protocols for exporting lambs.

Phases, Objectives and Activities

Three phases are proposed - see Annex 7. Each phase is identified with an objective and set of activities. Phases are staggered with one and two beginning immediately and phase 3 lagging as the results of the production of quality lamb is tested in the export market.

Phase 1, Objective 1

Develop the capacity of sheep industry stakeholders to become market oriented.

Activity 1.1. Develop lead and participating farmers in five locations: Dragash (7,557 sheep), Prizerin (9,874 sheep), Ferizaj & Kacanik (5,166 sheep), Kamencia-Gjilan (9,284 sheep), Gjakove-Rahovec (6,114 sheep) – see map in Annex 8. The plan calls for 10 producers to participate in each location with each flock having over 300 sheep.

Activity 1.2. Introduce the graded lamb program to the farmers and implement the program. Introduce on-farm demonstrations and management assistance to the lead farmer to achieve the types of lambs required by the export market.

Activity 1.3. Implement the necessary health, inspection and monitoring programs to obtain export licenses. Specific tasks will be identified after discussions with Macedonia and BiH veterinarians.

Activity 1.4. . Develop a network of livestock traders who may be interested in collecting, holding and transporting lambs to Macedonia or BiH. This activity calls for training of traders in collecting, holding, and transporting sheep.

Activity 1.5. Develop a brand promotion program for Sharri lamb among butchers in Kosovo as well as build an image of quality lambs for the export market. The brand could be identified with a Sharri lamb marketing cooperative or association.

Phase 2, Objective 2

Develop the market for lambs for slaughter in Macedonia and BiH.

Activity 2.1. Establish necessary linkages with LoL in Macedonia to cooperate on this program. LoL has a long history of developing both lamb and cheese markets in Macedonia and has worked in Kosovo. KCBS can also seek collaboration with the USAID LAMP project in BiH.

Activity 2.2. Assist the KVFA to undertake negotiation with Macedonia and BiH on a recognized protocol for the export of live lambs from Kosovo. The protocol will need to include the identification and registration (I&R) of flocks for the export marketing program.

Activity 2.3. Establish formal ties between slaughter plants in Macedonia and BiH and legal entities in Kosovo to implement the protocol for export of graded lambs. Market information on Kosovo lambs in the program can be videoed or put on CDs, and the information sent to prospective buyers or posted on the web for review before sales. The emphasis is on promoting the Sharri breed in Kosovo

Phase 3. Objective 3

Develop the capacity of Kosovo slaughter industry to export lamb carcasses and value-added lamb products.

Activity 3.1. Identify the constraints in the recognition of slaughter plants in Kosovo for export of meat. Conduct an audit of two or three potential export plants. Develop a road map for certification accepted by Kosovo and international animal health bodies (OIE).

Activity 3.2. Select one slaughter plant for in-depth assistance. Obtain a commitment from the owner that this plant will export meat products. Implement a HACCP program in this plant and other necessary procedures to be in EU compliance. Establish a mentoring program linking this plant owner/manager with a similar type and size of operation in an EU country. (See report by Sullivan in 2004 on details of this mentoring program.) The two managers will have exchange visits, and a relationship will be established that will last several years.

Activity 3.3. Sign marketing contracts with importers for Sharri lambs in the region and in selected EU countries, such as Greece and Italy.

Activity 3.4. Establish marketing contracts between the Kosovo slaughter plant and producer marketing groups in the graded lamb program.

Tasks for Influential Stakeholders

The three phases and the three objectives require the involvement of key influential groups to move the program forward. A set of these change agents are listed in Annex 9. The primary implementers are: KCBS staff, USAID-Kosovo, KVFA, and the Macedonia and BiH slaughter plants. The tasks are important to the overall success. For example, USAID-Kosovo can help to encourage the Republic of Macedonia to be cooperative in implementing the free trade agreement between the two countries.

Benefit Analysis

A simple financial analysis was conducted on what could be the benefits of this program to Kosovo. Without the interventions proposed, the sheep industry will continue to languish. Sheep numbers will likely stay about the same with the industry dependent on the local market. Fifty producers with an average flock size of 300 ewes would be initially involved in the program. Each producer, without the benefits of this project, has sales of approximately €12,960 per year in ewes, rams and lambs - Annex 3. For all 50 farmers this is € 648,000 in sales revenues without the project interventions. The producers generate no export earnings.

With the KCBS project of a lamb export program, each producer with an average flock size of 300 ewes is estimated to have €17,325 in sales revenues in the third year. That is an incremental benefit of €4,365 per producer compared to not being in the KCBS program. The 50 producers will generate sale revenues of €866,250 per year. Each

producer would export approximately 290 lambs and generate around €13,000 in export earnings in the third year.

Conditions for Success

The lamb export project is designed to be market driven for producers. Market contracts will be established with slaughterhouses in Macedonia and BiH. Two letters are enclosed in Annex 4, which were received during this consultancy. These letters have been forwarded to the KVFA office and the EAR project office to notify these groups of the seriousness of importers for Kosovo lambs. Communication will be on-going with importers to further define their market requirements so that sheep producers can begin to plan their lambing activities starting in late December for planned sales in April.

KCBS needs to establish a working group which includes representatives from the different stakeholders to help guide this program to early fruition. Stakeholders would include producer representatives, KCBS, MOAFRD, KVFA, EAR, and slaughter plant representatives, e.g. DELFIN, Ltd. for THE BiH slaughter plant. The MVFA plays a critical role in the success of this marketing program. The working group needs to have a narrow scope of work to have lambs ready for market and the border open beginning in April, 2006.

Short Term Technical Assistance

It is recommended that the project hire STTAs to support the sheep project manager.

A STTA-L (L=local) will assist the KCBS sheep specialist in to build rapid momentum begun with the effort that went into this report. The STTA-L would assist the sheep project manager in the following activities:

- establish the five producer marketing groups,
- instruct lead farmers in facilities design, animal husbandry practices for ewes and lambs in the program, and identification and tagging,
- help producers to obtain operating loans to prepare lambs for the program, and
- educate producers on the concept of contracting for future delivery of their lambs.

This person could be a local veterinarian with own transport to make regular visits to sites.

An STTA-E (E=expatriate) marketing advisor can assist the KCBS staff in the market development for the graded lambs and work with the slaughterhouses in Macedonia and BiH. This person can undertake the following activities:

- work on the necessary contracting procedures between the slaughterhouses and the producer groups;
- prepare the business plan based on veterinary requirements by Macedonia and BiH,
- undertake cost analysis of producer practices (feed, facilities, management) to reach the target weight range for lambs;
- advise on pricing strategies for the lambs;
- estimate the trade-offs between lamb and cheese production for producer decision-making in providing lambs for the export program (opportunity cost for fluid milk);
- financial analysis of shifting breeding practices to provide lambs for both the New Year and the Easter market windows;
- conduct transaction analysis of required shipping conditions, documentation, and trans-boundary issues in transporting the live animals;
- estimate transaction costs in exporting live animals;

- undertake establishment of a baseline analysis from which the project can be evaluated;
- assist the KCBS staff to undertake market research in the target markets for sale of a branded Sharri lamb product from Kosovo; and
- undertake other requirements needed to expedite the export of lambs to Macedonia and BiH.

ANNEXES

Annex 1	Bibliography
Annex 2.	List of Contacts and Site Visits Made
Annex 3.	Sheep Production, with and without KCBS Interventions
Annex 4.	Letters of Interest to Buy Kosovo lambs
Annex 5.	Operational Costs for a Pristina Butcher
Annex 6.	Regional Trade Statistics
Annex 7.	Objectives and Activities to develop a Kosovo Sheep Market
Annex 8.	Location of Farmers Receiving Focused Attention under Strategic Plan
Annex 9.	Roles for Key Stakeholders

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USDA Market News. New Zealand Meat and Wool Export Summary and Prices. Washington, D.C. September 22, 2005.

ANNEX 2 LIST OF CONTACTS AND SITE VISITS MADE

September 26th. Monday.

Meeting held with KCBS project staff to discuss the objectives of the assignment.

September 27th. Tuesday

Dr. Besfort Gunga, Chief of Veterinary Border Inspection Section. PISG. Kosovo Veterinary and Food Agency. Ph. 381-38 2525312; mob. 37744 155 650. and Dr. Kujtim Uka, Chief of Veterinary Drugs & Residue Section. Ph. 381 38 2525314. mob. 377 44 165 367.

Miguel-Angelo Fernandes and Artan Osmani. Strengthening of Public Veterinary Services in Kosovo – Phase 2. ph. 038-25 25 318/319. mob: 377-44-428 178. supervet@sapo.pt. Osmani ph. 381-382-525-317, artan.osmani@gmail.com.

September 28th. Wednesday

Rr. R. Bislmi. Owner of Lybeteni Meat Plant in Ferizaj. Ph. 0290/20785, mob. 044-113-563, 378 211. Visited the plant and his butcher shop in Ferizaj.

September 29th. Thursday

Nyset Brahimi and Siner Brahimi (cousins). Sheep producers near Prizren.

Visit to butcher shops in Prizren to collect prices for meat products.

Burim Piraj. MEKA. Dagrash. Ph. 502-385 and cell: 377-44-502-545. Meeting to establish interest in processing and marketing lamb.

Nait Mema. Sheep producer near Zhuri village south of Prizren

September 30th. Friday

Shkenca Goci, Greece Embassy, arranging appointment with trade director and getting names of slaughter plants in Greece Nicholas Canelos (head) and Debritra Cosmopoli (Deputy head).. Cell: 044-358207; office: 038-243-013, email: sgoci@umch.edu.

Dukagjin Hysa, Trade Analyst. Institute Nationale for Commerce. Italy Embassy. Ph/fax. 381-38 246 027. email: ice_prishtina@yahoo.it. Provided name of Trade Director:

Mr. Giancarlo Rocchelli, Director, ph. 389-232-96261. cell:389-70-340-868. email: skopje@ice.it. Fax.389-2-3296260. Istituto nazionale per il Commercio, Estero – ICE, Ufficio di Skopje, Via Makedonija 33, Risticeva Palata, Apt. 6. 1000 Skopje, Macedonia.

Agricultural trade fair in Pristina and met with Refki Zogaj, Semenarna Seed Company. Ph and fax 381 38 541 920. email: agrozogaj@yahoo.com. And met Ymer Berisha. Owner. Bylmeti Dairy Company. Ph. 377 44 111 437.

Ron Nyce, Nyce Development Associates. Ph. 381-67-408-002

October 3, 2005, Monday

Hysen Bytyri. Animal scientist at Pristina University involved in sheep improvement programs.

Burhan Bahteri. Mishtore Qengji Butcher Shop. Pristina.

October 4, 2005, Tuesday

Fatmir Hasanaj. Sheep producer near Ferizaj accompanied on trip to Macedonia.

Hasuf Saiti, manager and owner of the slaughter plant Ikl. Gorni Polog – GV. In Gostivar, Macedonia. Ph. 389-42- 221-021. fax. 389 42 211 324.

Abas Emini, butcher in Tetova.

October 6, 2005, Thursday

Enver Tahiri, extension agent with Dragash Municipality attended interviews with sheep producers.

Daut Beshir, sheep producer in Brod, Dragash Municipality, ph. 029-85232.

Ramaddan Amjda, sheep producer, Brod, Dragash Municipality.

Osman Rasidi, sheep producer in Bressan, ph. 044-423245.

Azem Memas and Izer Memas, two sheep farmers belonging to an association of 9 farmers Zhurri near Prizren. Ph. 044-135696 or 044 173-486. The leader of the group is Ademe who is in German now on sheep tour.

October 7, 2005, Friday

Ross Bull, Team Leader, Master Plan for Agriculture, ph. 381-38-211-605.

Visit to livestock market in Vushtri to interview sheep producers and market facilitators.

Yahir Shabani, sheep producer, Vushtri, ph. 044-618-692.

Haxhi Krasniqi, Market operator of weigh scale, ph. 028-71557.

Remzi Ferizi, manager, Appetite slaughter plant in Vushtri.

Ian Goulding, director, MegaPesca, consultant on Master Plan funded by EAR, to discuss the opportunities and constraints for sheep slaughter.

October 10, 2005, Monday

Luan Bahtiri, manager of butcher shop in Pristina to collect operating costs.

October 11, 2005, Tuesday

Abdurrahnan Konjufca, Director, Adi Feed Mill. To discuss the marketing channels for feed grains and how to supply lamb producers with least cost feed rations.

Agim Buzuku, sheep farmer selling in the Pristina market, ph. 044-278831. He reported there are two producers in his area each having 300 head.

Basri Krasniqi, director, DELFIN, Ltd., to discuss the opportunity for lamb exports to Bosnia.

Haki Bahtiri, manager of butcher shop in Pristina to collect prices for lamb meat. ph. 044-363-290.

October 12, 2005, Wednesday

Dr. Besfort Gunga. Chief of Veterinary Border Inspection Section. PISG. KVFA. Conveyed the letters of interest from slaughter plant in Macedonia and company representing slaughter plant in BiH. We discussed the next step in opening dialogue with the veterinary service in Macedonia.

Dr. Miguel-Angelo Fernandes and Dr. Artan Osmani. Provided details trip to Macedonia and conveyed letters of interest from slaughter plant and the representative for company in BiH.

Haki Bahtiri. Butcher, to discuss further operations of his butcher shop in Pristina to collect operating costs.

October 13, 2005, Thursday

Attending roundtable hosted by Master Plan in the MOARD with Ian Goulding as presenter.

October 14, 2005 Friday

Debriefing to Tim Hammond, Patricia Orlowitz, Flora, Martin Wood and Gursel Arifi at USAID-Kosovo office.

ANNEX 3

SHEEP PRODUCTION WITH AND WITHOUT KCBS INTERVENTIONS OF A GRADED LAMB EXPORT PROGRAM

Flock #	50	50
Households	50	50
Lead Farmer	0	5
Participating Farmers	0	45

		Without Project Intervention					With Project Intervention				
Herd Structure	(EOY)	Year 0	Year 1	Year 2	Year 3	Year 4 - 10	Year 0	Year 1	Year 2	Year 3	Year 4 - 10
Rams		15	15	15	15	15	15	15	15	15	15
Ewes		300	300	300	300	300	300	300	300	300	300
Replacement Ewes			60	60	60	60		60	60	60	60
Replacement Rams			3	3	3	3		3	3	3	3
Ewes at end of year		315	315	315	315	315	315	315	315	315	315
Technical Coefficients	Unit										
Lambing rate	no./ewe		1.00	1.00	1.00	1.00		1.10	1.30	1.50	1.70
Mortality rate											
Ewe	%		4	4	4	4		3	3	2	2
Replacement Ewe	%		4	4	4	4		3	2	2	2
Lamb	%		10	10	10	10		8	6	4	3
Price per kg	Euro		1.8	1.8	1.8	1.8		2	2.3	2.5	2.5
Replacement rate ewe	%		20	20	20	20		20	20	20	20
Replacement rate ram	%		20	20	20	20		20	20	20	20
Lamb Activities/flock											
Lamb born			300	300	300	300		330	390	450	510
male lambs			150	150	150	150		165	195	225	255
male lambs died			15	15	15	15		13.2	11.7	9	7.65
male lambs sold			135	135	135	135		151.8	183.3	216	247.35
female lambs			150	150	150	150		165	195	225	255
female lambs died			15	15	15	15		13.2	11.7	9	7.65
replacement lambs			60	60	60	60		60	60	60	60
female lambs sold			75	75	75	75		91.8	123.3	156	187.35
Ewe Dynamics/flock											
Ewes at start of year			300	300	300	300		300	300	300	300
Ewes died			12	12	12	12		9	6	6	6
Replacement ewes			60	60	60	60		60	60	60	60
Replacement ewes die			2.4	2.4	2.4	2.4		1.8	1.2	1.2	1.2
Ewes purchase			14.4	14.4	14.4	14.4		10.8	7.2	7.2	7.2
Sales Numbers/Flock											
Cull ewes	no.		60	60	60	60	no.	60	60	60	60
male lambs	no.		135	135	135	135	no.	151.8	183.3	216	247.35
female lambs	no.		75	75	75	75	no.	75	75	75	75
Cull rams	no.		3	3	3	3	no.	3	3	3	3
Sales Values/Flock											
Cull ewes	€		4,500	4,500	4,500	4,500	€	4,500	4,500	4,500	4,500
male lambs	€		6,075	6,075	6,075	6,075	€	6,831	8,249	9,720	11,131
female lambs	€		3,375	3,375	3,375	3,375	€	3,375	3,375	3,375	3,375
Cull rams	€		450	450	450	450	€	450	450	450	450
Total Sales/flock	€		14,400	14,400	14,400	14,400	€	15,156	16,574	18,045	19,456
Purchase of replacements	€		1,440	1,440	1,440	1,440	€	1,080	720	720	720
Total Revenues/household	€		12,960	12,960	12,960	12,960	€	14,076	15,854	17,325	18,736
Net difference in household revenues								1,116	2,894	4,365	5,776
Project Impact											
Household Revenues/year	€		648,000	648,000	648,000	648,000	€	703,800	792,675	866,250	936,788
Increase in Export Earnings/year	€		0	0	0	0	€	0	0	0	0
Revenues at end of 10 years	€					6,480,000	€				8,920,238
Difference With and Without project	€						€				2,440,238

ANNEX 4 LETTERS OF INTEREST TO BUY KOSOVO LAMBS



»IKL GORNI POLOG GV«

INDUSTRIJSKA KLANICA ZA OBRABOTKA I PROMET SO MESO I MESNI PROIZVODI

GOSTIVAR - MAKEDONIJA

Tel./faks: +389 42 211 324

1230 Gostivar, ul "Beličica" bb
Ž. s-ka: **200001092252972**
EDB MK: 4007005130327
Dep: Stopanska banka - Gostivar

200

Naš znak _____

Vaš znak _____

To:

USAID
KCBS Pristine
For Mr. Gursel Arifi

P R E D M E T:

SUBJEKT: Demand - Announcement

From the Abattoir "Gorni Polog - GV" - Gostivar

The Gostivar's abattoir "Gorni Polog - GV" existed since 1962, the old block, whereas in 1982 was build the new block according to the European norms.

The same is composed of three parts:

1. The abattoir - for slaughtering big animals and the second line for slaughtering lamps, with capacity of 3.000 lamps for 8 (eight) hours work, ore 6.000 lamps for 16 (sixteen) hours work, whereas 120 big animals for 8 (eight) hours work.
2. The fridge - which can rich a temperature of -40 °C.
3. Industry of meat elaboration.

The abattoir is made and equipped with technology equipment according to the European norms, which is proved by the permission for exporting the lamp meat to the EU, which posses the abattoir, permission nr. 6. It is made in the monism, which means that it has been states possession whereas with the process of transformation in Republic of Macedonia the abattoir was transformed to a private possession with 100% without any obligation to the state and the ex workers, so the said object is 100% private object.

After its transformation in a private possession, started the rebuilding of the objects and equipments which are in the last phase. During 2004 and 2005 the states members of the EU positively in Italy and Greece are exported approximately 20.000 lamps.

Some days before, we visited Serbia and Montenegro, Croatia, Slovenia and Italy. The visiting was organized by Italian partners who used to be collaborators of the abattoir, with hose we collaborated last year, and they are interested for further collaboration. From the visiting we made we can notice that the demand for Macedonian lamps is big, knowing the quality of this goods, and it is ecologic healthy meat because of the convenient conditions and ecological clear environment.

For illustration we show you that just one collaborator from Bari-Italy for the feast of Easter has a demand of 80.000 lambs within 10-15 days, whereas from January till the said period for every week 4.000 lambs and the same continue after the feast. Such demands also had in other places of Italy such as Rome, Padova, Parma, Pescara.

However, unfortunately the stock of animals in Macedonia is small and day by day is decreasing, which interrupts us to fulfill the demand of our collaborators. As one of solutions of this problem, we see in importing live lambs from Kosovo because:

- The climatic conditions are the same as in Macedonia (the Shar montage Macedonia - the Shar montage Kosovo), and also the same race of lambs.
- The exportation of the same goods from Kosovo is made via the same abattoir at the time of Yugoslavia (1970-1992).

In that period the Gostivar's abattoir has had its own stockbreeders around Kosovo, like in Prizren-Opoj, Ferizaj, Lipjan etc.

In nowadays the importation of live animals from Kosovo will enable free trading between Macedonia and Kosovo as help of Kosovo stockbreeders for sale of meat in EU states. This would be as continuance of the previous collaboration of Kosovo and Macedonia, and ex Yugoslavia.

But for realization of this collaboration at the moment exist barriers between two countries because Macedonian laws don't allow importation of live lambs from Kosovo, this is maybe for protecting the Macedonian stockbreeders but as we said before the stock of lambs of Macedonia is small and not enough, therefore we suggest to make any contract between Macedonia and Kosovo for free importation with your intercession as international factor.

With honor !!

10.10.2005
Gostivar

Gorni Polog, GV




From : "Delfin LTD" ,Bill Clinton,Prishtina,
To:USAID(KCBS)

DECLARATION

Hereby we are informing you that today we had a meeting with representaion from KCBS /USAID project where we have disscused about the import of live lambs into Bosnia and Herzegovina.

We have spoken also with " Lijanoviq ",company in B&H ,they are very interested for this kind of import, so I thing that we could start the cooperation

Date:11.10.2005



BASRI KRASNIQI
(Director)

A handwritten signature in dark ink, appearing to read "Basri Krasniqi", written over a light background.

ANNEX 5

OPERATIONAL COSTS FOR A PRISTINA BUTCHER

Revenue	Volume		Weight	Revenues	
	units		kg	€/month	€/kg
beef	10 car.	225/carc	9,000	5	40,500
offal					
sheepmeat	50 car	15kg/carc	3,000	6	18,000
sheep head	50		200	2	400
sheep offal	50	5kg/carc	1,000	5	5,000
Sausages			800	4	2,800
Sheep Skin	50		200	4	700
Cow hide	10		<u>40</u>	<u>8</u>	<u>320</u>
sub-total:monthly vol.	kg.		14,240		67,720 4.76
lamb		6/kg	6/kg		
Operating Costs	units	Shop #1	Shop #2	Average.	
Cost of meat					
beef					28,800
lamb					10,000
sausage					
Utilities		150	100		125
Labor	1	250	400		325
son	2	400	400		400
Slaughter Cost					
cattle					200
sheep					600
Transport of animals and meat					500
Trays for meat			.10 per tray		20
Rent		500	600		550
water			20		20
garbage			30		<u>30</u>
sub-total of op. costs	€/month				41,570 3.25
Butcher's Margin/month	€/month				26,150
Butcher's Margin/kg	€/kg				1.51
mark-up	percent				46.43%

Source: Personal interviews with two shop owners in Pristina

ANNEX 6

REGIONAL TRADE STATISTICS

Inventory of Sheep		<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Macedonia	Hd	1,289,000	1,251,000	1,233,000	1,239,000	1,423,000
Italy	hd	11,017,000	8,311,000	8,138,000	7,952,000	8,000,000
Greece	Hd	8,950,971	8,992,502	9,205,000	8,932,000	9,042,000
Albania	Hd	1,939,000	1,905,000	1,844,000	1,903,000	1,800,000
Serbia-Montenegro	Hd	1,917,000	1,782,670	1,691,199	1,756,092	1,838,000

source: FAOSTAT

Imports of Live Sheep and Lambs

		<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Greece	hd	560,131	722,644	759,020	811,927	
	\$	20,234,000	27,387,000	29,713,000	38,324,000	
	\$/hd	36.12	37.90	39.15	47.20	
Italy	hd	1,773,414	1,561,933	1,702,099	1,807,480	
	\$	75,304,000	75,897,000	86,289,000	101,972,000	
	\$/hd	42.46	48.59	50.70	56.42	

source: FAOSTAT

Imports of Mutton and Lamb		<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Greece	mt	18,549	19,764	14,461	16,085	
	\$	40,978,000	41,442,000	41,899,000	52,290,000	
	\$/mt	2,209	2,097	2,897	3,251	
Italy	mt	23,383	25,804	22,978	23,377	
	\$	76,722,000	98,107,000	90,502,000	112,045,000	
	\$/mt	3,281	3,802	3,939	4,793	

source: FAOSTAT

ANNEX 9

ROLES FOR KEY STAKEHOLDERS

Activities, outputs and time frame for key stakeholders in the development of graded lamb sales to Macedonia for slaughter

Primary Stake-Holder	#	Activity	Output Desired	Time Frame
KCBS Staff	1	Visit to slaughter plant in Macedonia to assess interest and obtain commitment	<ul style="list-style-type: none"> Letter of interest 	October 2005
	2	Meet with MOAFRD in Dragash to obtain support and mobilize farmers	<ul style="list-style-type: none"> MOU Plan of work 	October, 2005
	3	Meeting with farmers in Dragash and form a graded lamb marketing association	<ul style="list-style-type: none"> Formation of group Selection of directors Mission statement 	October to December, 2005
	4	Plan on-farm research activities (feeding) with University of Pristina professor	<ul style="list-style-type: none"> MOU 	November, 2005
	5	Plan for identification and registration of participating flocks in Dragash by KVFA and with help from EAR's I&R project	<ul style="list-style-type: none"> Plan 	December, 2005
	6	Private veterinary inspection of participants' flocks	<ul style="list-style-type: none"> Fee for service 	January, 2006
	7	Video taken of the lambs for sale and sent to participating slaughter house in Macedonia and BiH	<ul style="list-style-type: none"> Video distributed 	March, 2006
	8	Lambs are tested for brucellosis and blue tongue and moved to secure quarantine site if necessary.	<ul style="list-style-type: none"> Tests conducted and certificates issued 	March, 2006
	9	Graded sale occurs in April and lambs transported according to contract	<ul style="list-style-type: none"> Sale conducted for 2,000 lambs Contracts signed Money transferred to escrow Lambs shipped 	April, 2006
	10	Begin to build the brand name and establish logo for Sharri lambs	<ul style="list-style-type: none"> Marketing materials 	January to December, 2006
USAID – Kosovo	1	Use political channels to open the live animal trade for lambs for slaughter to Macedonia and Bosnia-Herzegovina (BiH)	<ul style="list-style-type: none"> Contact made with US embassies in Kosovo and Macedonia to facilitate trade for lambs for slaughter 	November, 2005
Kosovo Veterinary Service	1	File regular reports to OIE on the status of animal health and the sheep inspection in Dragash	<ul style="list-style-type: none"> Regular reports 	December, 2005
	2	Protocol established with Macedonia veterinary service to receive inspected lambs for slaughter.	<ul style="list-style-type: none"> Written protocol 	February, 2006
	3	Conduct necessary tests for certification of Dragash lambs for export	<ul style="list-style-type: none"> Certificates issues 	March – April, 2006
Macedonia Slaughter Plant	1	Requests letter from Italian traders on the quantities needed for Sharri lambs for the market	<ul style="list-style-type: none"> Letter received and sent to Ministry of Agriculture in Skopje 	October, 2006
	2	Owner of slaughter plant holds face to face meeting with Ministry of Agriculture on how to source needed lambs, including Kosovo lambs	<ul style="list-style-type: none"> Meeting conducted 	December, 2005
	3	Owner of plant conveys to KCBS the outcome and what directions to take to source Kosovo lambs	<ul style="list-style-type: none"> Face to face meeting between KCBS staff and plant manager 	December, 2005

ANNEX 8

LOCATION OF FARMERS RECEIVING FOCUSED ATTENTION UNDER STRATEGIC PLAN



Phase 1.

Objective. 1. Develop the capacity of sheep industry stakeholders to become market oriented.

Activity 1.1. Develop lead farmers and participating farmers in five key locations Five groups will be the nuclei for a Kosovo lamb marketing association Assist groups with bulk sales of feed to participating groups as a first effort	Time frame: complete by October 31st Outputs = Trainings Inputs = Grants to pilot groups STTA-L hired to assist KCBS
Activity 1.2. Develop the concept of a graded lamb sales in conjunction with LF and PF groups Present the program to the LF and PF Implement the program	Time frame: October - December 2005 Outputs: Commitments by LF and PF stakeholders Inputs: Producer commitments of livestock Hire STTA-L to assist in development
Activity 1.3. Promote the proper inspection of Sharri lambs of the program Work with KVFA on necessary protocol for export of lambs to Macedonia and Bosnia	Time frame: October, 2005 and on-going Output: Accepted protocol between KVFA and farmers Inputs: Involvement of KVFA, STTA-E could assist
Activity 1.4. Develop a network of traders for graded lambs and a set of approved slaughter houses	Time frame: October, 2005 and on-going Output: Network of livestock to move livestock Inputs: networking, KCBS staff
Activity 1.5. Develop a name recognition with participating butchers, retailers and HRI for graded lambs Overcome the negative idea about lamb and brucellosis Get product into establishment through marketing effort. Conduct cutting, cooking and tasting demo for butchers and HRI	Time frame: June, 2006 and on-going Output: Increased use of lamb by HRI and Retailers Inputs: Grants to individual meat processors STTA-E can help to design, implement

Phase 2.

Objective 2. Develop the market for lambs for slaughter in Macedonia and Bosnia Hercegovina (BiH)

Activity 2.1. Make linkage with NGOs and others in Macedonia on cooperating in sheep development LOL in Macedonia, and begin discussion in BiH with help from LAMP project and discuss with BiH companies, e.g. Lijanovici Meat Company	Time frame: October, 2005 and on-going Output: Increased use of lamb by HRI and Retailers Inputs: KCBS staff and STTA-E
Activity 2.2. Develop protocol by KVFA to undertake inspection of participating herds in the graded lamb sales and begin testing lead farmer and participating producer flocks.	Time frame: October, 2005 and on-going Output: Increased use of lamb by HRI and Retailers Inputs: Grants to producers for tagging
Activity 2.3. Get list of slaughter plants in Macedonia and begin to advertize the graded lambs Provide the necessary marketing materials to advertize the lamb, CD, video Promote the Sharri breed and region of Kosovo in sales to slaughter plants.	Time frame: November - May, 2006 Output: List with contact names Inputs: Marketing aids, video of flocks and STTA-E

Phase 3.

Objective 3. Develop the capacity of Kosovo slaughter industry to export lamb and lamb products (Time = 2006 and 2007)

Activity 3.1. Identify constraints (political, economic, facilities) for the slaughter and processing of meat for export. Audit of potential plants. Develop a road map for certification for plants in Kosovo. Evaluate lamb export program to see how to proceed.	Time frame: May - December, 2006 Output: Audits completed Inputs: STTA-E consultant and KVFA
Activity 3.2. Identification and assistance to at least one slaughter plants that can potentially export workshops and develop slaughter techniques in compliance with HACCP Establish a mentor for the plant manager in the EU. Request EU license when appropriate	Time frame: March - August, 2006 Output: HACCP. EU plant mentor for Kosovo manager Inputs: EU mentor, STTA consultant and KVFA
Activity 3.3. Seek marketing contracts between slaughter plants and buyers in other countries to link Kosovo slaughter plants with buyers in Greece and Italy and EU countries. Try to seek opportunities with non-EU countries, e.g. Bosnia to accept lambs, Lijanovici.	Time frame: June - December, 2006 Output: two marketing contracts Inputs: Project staff
Activity 3.4. Establish marketing contracts between slaughter houses and graded lamb producer associations in Activity 1.1.	Time frame: October, 2006 - May, 2007 Output: Contracts signed Inputs: Project staff